PACIFIC WESTERN AIRLINES

ANNUAL REPORT 1968

PACIFIC WESTERN AIRLINES

TWENTY-SECOND ANNUAL REPORT / NINETEEN HUNDRED AND SIXTY-EIGHT


PACIFIC WESTERN

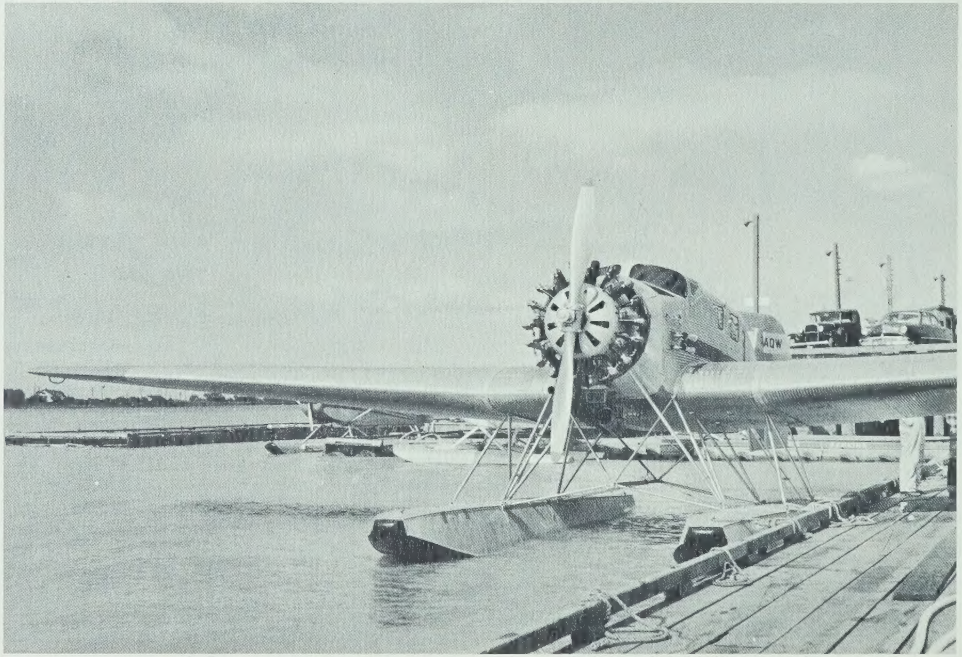
Pacific Western Airlines is Canada's largest independent air carrier. It is also the largest Regional Air Carrier; — the second largest air cargo carrier, — and third largest airline in the country (after only Air Canada — a Canadian Government Crown corporation, — and CP Air — a subsidiary of the Canadian Pacific Railway Company).

Pacific Western started operations at Fort St. James in the Interior of British Columbia in 1945 as little more than a dream; — a dream of providing a useful and well-managed air service which would then attract customers. Starting in the air charter business with a single leased Beech bi-plane, the Company has since achieved operational success and stature in every phase of air transportation: on scheduled and chartered flights; over regional, national and international routes; carrying both passengers and freight.

Today, in terms of our size, our modern fleet — many of them jet aircraft — and our broad range of services, Pacific Western has left its earlier pioneering days behind — but we still accept challenge. We look constantly for means of finding a low-cost, effective solution to transportation needs. We do it with people — our people. Our personnel have made us what we are. They are encouraged, however, to deal positively — to recommend to us services that will be useful to the user; and therefore to the mutual benefit of all. On this basis we look forward to an expanding future for air transportation — and our part in it.

R. H. Laidman

R. H. Laidman, President



More than 20 years ago — a Junkers W33 . . .

UP UNTIL NOW

The growth and development of Pacific Western Airlines is a story of individual enterprise and initiative — the type of story that is becoming increasingly rare in our modern society. The company began operation in the northern mountain country of British Columbia — one of the most challenging flying areas in the world. Its first name, Central British Columbia Airways Limited, had a larger wingspan than its first aircraft, a leased Beech bi-plane.

Flying principally for the B.C. Forest Service, the company rapidly acquired a reputation for flying know-how, dependability and ingenuity.

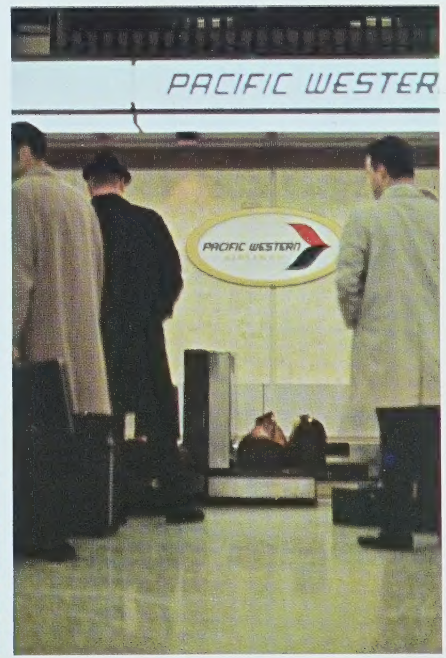
Flying skill and knowledge of the B.C. terrain earned the airline an important contract in 1949 for air surveys which paved the way for the giant aluminum and power complex at Kitimat and Kemano. During the long development of this Alcan project, the company handled 95% of its air traffic and became specialists in the handling of heavy industrial freight by air.

That same year, 1949, the company bought out Kamloops Air Services and embarked on a program of expansion that was to see the eventual acquisition of Skeena Air Transport, Associated Air Taxi (Vancouver), Whitehorse Flying Services, Queen Charlotte Airlines, and Associated Airways (Edmonton and north). Each contributed importantly to the company's resources of manpower and equipment, and to the scope of its operations.

The name Pacific Western Airlines Ltd. was adopted in 1953. This was the beginning of an important period in many ways. It saw the airline take its first tentative steps into scheduled flying; and 1955 brought PWA a vital contract for DEW line construction flying.

The all-important breakthrough in scheduled flying came in 1959. In the largest single transfer of scheduled services in Canadian aviation history, Pacific Western took over Canadian Pacific Air Lines' routes from Edmonton, Alberta, to 18 northern points. With this addition to its regular routes, the company

to a present day Boeing 707



became licensed to fly regular services over some 7,000 unduplicated route miles throughout Western and Northern Canada.

Since then, PWA has continued to explore and expand new services. One of the most successful has been the unique Calgary-Edmonton 'Chieftain' AirBus inaugurated in 1963 — Canada's first and only AirBus service, now carrying as many as 1,000 passengers between the two points on a peak day.

Then in 1964, when additional domestic licences could not be anticipated until a long-promised regional air policy was formulated and announced, Pacific Western pioneered the first Canadian Inclusive Tour charter operation from Vancouver to Grand Cayman Island — a series of ten trips. Later in the year, we entered the international group charter field flying principally across the Atlantic to the United Kingdom.

Meanwhile, in anticipation of the eventual implementation of a Regional Air Policy, which would undoubtedly contain a prerequisite to dispose of smaller aircraft charter operations to tertiary carriers, such a program was undertaken by the Company. By early 1968, only large multi-engined aircraft were being employed.

In 1966, Pacific Western joined the jet-age by placing orders for seven jet-prop and pure jet aircraft, valued at more than $32,000,000, for delivery in 1967 through 1969. Since then a Boeing 707, a second Hercules and a third Boeing 737 have been delivered or ordered. Shortly after, a Regional Air Policy for Canada was announced.

Finally, in 1968, a new licence was granted to serve Vancouver, Kamloops and Calgary; and in early 1969, PWA was licensed to serve Vancouver, Kelowna, Penticton, Cranbrook and Calgary — as well as Sandspit, Prince Rupert and Prince George. These then, were the first stages of the new Canadian Air Policy — significantly, a policy closely paralleling some of the earlier transfers of licences (with Government approval) pioneered by the late Russ Baker, founder

and early President of PWA, and the late Grant McConachie of Canadian Pacific Air Lines.

NOW

Pacific Western Airlines now operates scheduled services over more than 11,000 licensed route miles in British Columbia, Alberta, Saskatchewan and the Northwest Territories. To some of the 30 airports served, we provide the only regular transportation available. These airports in turn directly serve more than 45 communities in western Canada, and through connecting services at major stations, PWA becomes the 'mainline' carrier for several dozen additional destinations.

We, in turn, connect at Vancouver, Calgary and Edmonton with trans-continental and international flights, and through well-established interline arrangements, can ticket and make reservations for a passenger from Inuvik to Istanbul, — Cranbrook to Copenhagen, — or Dawson Creek to Djakarta.

Of course, if enough members of a group or organization get together, they can charter our 153 passenger Boeing 707 fan-jet to fly direct to Istanbul, or Copenhagen, or Djakarta. During 1969, more than 35,000 passengers will fly PWA International charter from western Canada to Europe, Mexico, Hawaii and on one late year charter already booked — around the world!

The only commercial Hercules' operations in Canada have brought a new dimension to air freighting. We call it the 'freight shaped airplane' because of its large rectangularly shaped fuselage, with full size rear loading doors and ramp, — and a capacity for 48,000 pounds of cargo. As well as providing additional capacity for the annual 'spring airlift' to northern communities pioneered by PWA, and serving the rapidly expanding oil and mining developments in northern Canada, the first Hercules has operated in 48 other countries of the world. It has carried such diverse cargo as bullion from London to the Far East, oil well equipment in the Middle East, grapes from Nicosia to London, and sheep from Finland to Canada.

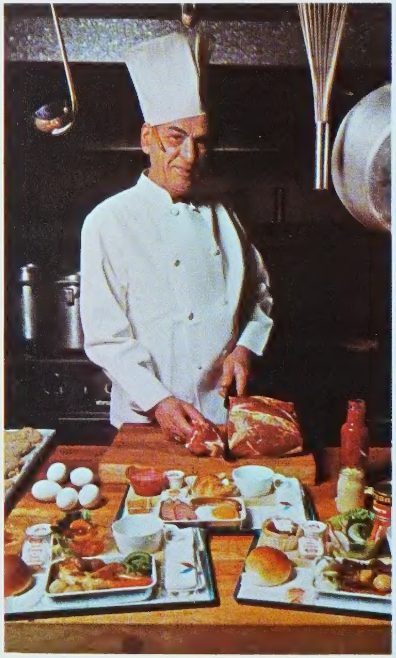
The aircraft fleet in Spring 1969 includes the Boeing 707, 2 Boeing 737's, 4 Convair 640's, 2 Lockheed Hercules, 5 Douglas DC-6 series aircraft, 2 Douglas DC-4's and 2 remaining Douglas DC-3's — with all scheduled passenger services operated by pressurized aircraft. Boeing 737's — the newest jet airliner in service — are bringing modern jet-age comfort, speed and reliability to western and northern communities of a style comparable to that enjoyed anywhere.

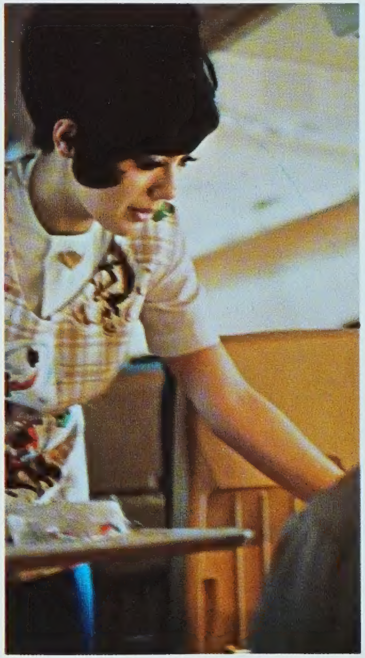
THE PEOPLE

Airplanes, modern and up-to-date as they may be, are inanimate (although some pilots may disagree) vehicles of transportation. People are involved in making them useful vehicles for passengers and goods on the move. At Pacific Western, there will be almost 1,000 personnel employed by mid-1969 — not to mention the almost 2,000 shareholders, mostly resident in western Canada, who have also shown their faith in this Company's future.

Obvious are the salesmen, counter agents, and in-flight attendants — stewardesses, stewards and pursers — who meet face-to-face with our clients. Not so obvious, perhaps, are the flight crews who fly the aircraft — the reservations personnel who are a voice on the other end of the telephone, but sales people nevertheless, the ramp crews who load and unload the aircraft — get them out on time and marshall them in to their allotted ramp space on return. Or the dispatchers who co-ordinate pre-flight planning and weather briefings and constantly monitor all flights — or the maintenance staff who check the condition of all aircraft, and all of their components, on a daily basis.

Then there are the communications staff, vital in a fast moving industry (PWA even staffs and operates some navigational facilities in northern Canada, under Government contract — and sometimes we move in and operate Company owned navigational aids in support of new scheduled or charter operations). Accountants,





office staff, and purchasing and stores staff are fundamental — and finally a management group is necessary to co-ordinate and to plan ahead.

Flight kitchens at Vancouver and Edmonton, under exclusive contract to PWA, will provide more than 200,000 meals in 1969 — to which will be added additional thousands of meals catered for at other locations, mostly in Europe — all to rigid quality standards.

In smaller communities, as a matter of policy, PWA will not normally operate a city ticket office where a local businessman — a Travel Agent — is already situated. Rather, our staff are maintained on a full-time basis at the airport for complete reservations service and flight time handling, instead of wasting valuable time travelling between two locations for flight arrivals and departures. In some major centres, however, city ticket offices are expected to be provided, and they further enhance our service capability.

Reservations handling and control is vital. Not only for customer service to on-line destinations, but for interline connecting services as well. Direct communications are maintained with all stations from efficient reservations centres at Calgary, Edmonton and Vancouver — as well as a tie-in with the 'interline computer' in Toronto. This provides almost instant confirmation to clients of on-going, or in-coming reservations on connecting carriers' flights.

Training is important — particularly in an industry undergoing such rapid technological change. At Pacific Western, training is a continuing program. Classroom training of two to three weeks for new employees is augmented with refresher courses, on-the-job training, courses at certain manufacturers' facilities for maintenance, flight and communications personnel, and regular supervisory checks.

Safety is of concern to the traveller, but no less so to us. The Canadian Department of Transport, in the public interest, has set out safety standards for air operations that are among the most demanding of any in the world. PWA undertakes to meet these standards at all times, and in most situations has set standards higher than those required.

Some sage once said that "Airplanes never get old — they just get obsolete". They don't get old because standards of maintenance require replacement or complete overhaul of all aircraft components at pre-determined intervals — which are well in advance of any likely failure of the component or part.

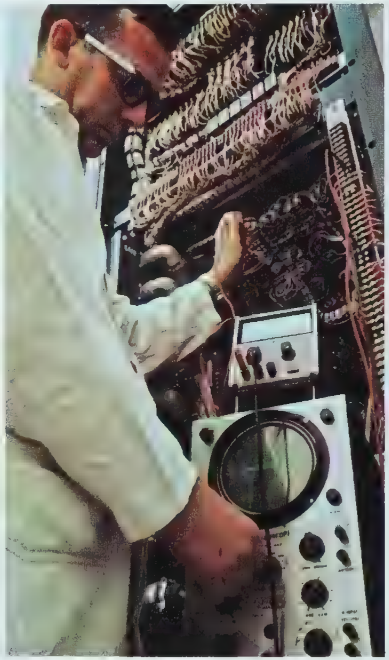
No wonder to fly is statistically proven to be the safest way to travel!

THE FUTURE

The delivery of PWA's second Boeing 737 on March 12, 1969, second Lockheed Hercules by April 1st, and commencement of new domestic services on March 17, March 31 and April 27, over additional British Columbia and Alberta routes, represent a further major expansion in early 1969.

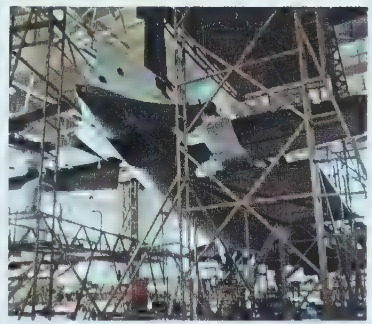
New markets are open to us, and an aggressive sales program is planned. New techniques in air freighting are constantly being worked out, and very often now equipment to be airlifted is being designed and manufactured to fit the dimensions of PWA's Hercules.

Flight training simulator



For several years, PWA has joined forces with Byers Transport Ltd. in a combined truck/air operation which involved trucking of freight to the end of road (usually Yellowknife) for furtherance by air on a 'one contract' basis. Early in 1969, we announced our intention to purchase Edmonton based Byers Transport Ltd., and Truckers Terminal Distributing Co. Ltd., subject only to approval by the several regulatory authorities involved. These two firms own and operate, primarily in northern Alberta and the Northwest Territories, some 200 truck, tractor and trailer units, as well as leasing additional driver-owned units for long distance highway hauls.

And after this — well let's just say we've got a lot of growing to do yet, while constantly developing and improving present services wherever possible.



In 1968 the Boeing 737 was introduced into service

President Laidman clears Boeing 737 number 2 with Canada Customs

FINANCIAL REPORT 1968


PACIFIC WESTERN AIRLINES
DOMESTIC SCHEDULED SERVICES
INTERNATIONAL CHARTER SERVICES

DIRECTORS

B. C. SAMIS
Chairman of the Board

President, Samis & Co. Ltd.,
Investment Dealers,
Vancouver, Canada

W. J. BORRIE
Director

Chairman, Pemberton Securities Ltd.,
Vancouver, Canada

C. W. BRAZIER, Q.C.
Director

Partner, Davis, Hossie, Campbell,
Brazier & McLorg,
Barristers and Solicitors,
Vancouver, Canada

J. D. HAGAR
Director

President, Hagar Investments Ltd.,
Victoria, Canada

R. H. LAIDMAN
Director

President, Pacific Western
Airlines Ltd.,
Vancouver, Canada

OFFICERS

R. H. LAIDMAN
President

W. R. HARRIS
Vice-President and General Manager

J. B. McGUIRE
Vice-President Sales and Traffic

J. C. S. MILES
Vice-President Operations

A. J. MOUL
Vice-President Cargo and Contracts

D. N. WATSON
Vice-President Management and
Technical Services

D. F. GRANGER
Secretary-Treasurer

1968 IN BRIEF

FINANCIAL	1968	1967
Operating revenue	$ 17,645,149	$ 14,973,881
Operating expenses before depreciation and amortization	15,112,375	12,515,629
Cash operating income	2,532,774	2,458,252
Depreciation and amortization of introductory costs	1,388,581	1,297,851
Operating income	1,144,193	1,160,401
Deferred income taxes	214,200	237,000
Net earnings for the year	284,704	317,408
Common shareholders' equity	4,919,394	4,375,227
OPERATIONS		
Passengers carried		
Mainline	370,577	364,089
International charter	31,354	11,167
Domestic charter	19,746	26,699
Passenger miles flown		
Mainline	95,425,649	92,909,407
International charter	116,503,122	42,316,740
Domestic charter	11,047,593	26,087,765
Cargo ton miles flown		
Mainline	3,554,529	3,647,799
Domestic charter (excluding Hercules)	794,534	256,389
Hercules	5,390,751	5,847,325
Aircraft miles flown		
Mainline	3,190,941	3,731,926
International charter	1,117,204	669,764
Domestic charter (excluding Hercules)	1,061,512	1,194,303
Hercules	577,859	563,115

PACIFIC WESTERN AIRLINES LTD. ANNUAL REPORT 1968


RESOLUTE
INUVIK
TO EUROPE
CAMBRIDGE BAY
NORMAN WELLS
WRIGLEY
FORT SIMPSON
YELLOWKNIFE
HAY RIVER
FORT SMITH
RAINBOW LAKE
URANIUM CITY
FORT CHIPEWYAN
SANDSPIT
PRINCE RUPERT
DAWSON CREEK
FORT McMURRAY
PEACE RIVER
PRINCE GEORGE
PORT HARDY
CAMPBELL RIVER
EDMONTON
KAMLOOPS
COMOX
POWELL RIVER
VANCOUVER
TO THE PACIFIC
CALGARY
KELOWNA
CRANBROOK
PENTICTON
TO USA AND CARIBBEAN

TO THE SHAREHOLDERS

Our report this year is in two parts. It is our intention to use the extra section found at the front for the purpose of acquainting new shareholders and customers with the scope of your Company's operations, as well as providing current information additional to that contained herein.

FINANCIAL

Gross revenues of $17,645,000 for the year represent an increase of 18% over that of 1967. A modest increase in operating income was offset, however, by increased costs of depreciation, amortization of introductory costs and debt charges to result in a reduction, before gain on sale of equipment and income taxes, of $75,000 in net profit for the year, as compared with 1967.

While income taxes of only $7,532 are actually payable for the year, your Company has decided to charge to earnings the deferred income taxes which arise from claiming capital cost allowance for tax purposes in excess of depreciation recorded in the accounts, in accordance with a recommendation of the Canadian Institute of Chartered Accountants. Accumulated deferred taxes to December 31, 1967 have not been recorded in the accounts. However, to present a proper comparison of 1967 and 1968 earnings, the 1967 figures previously reported have been restated in this report to reflect the applicable deferred taxes for that year.

Reflected in the results for the year was the stimulation of revenue following the introduction of modern jet powered aircraft on our international charter operations, and domestic routes where existing facilities permitted. Also reflected, however, were the associated high introductory costs — notably those of amortization, debt charges and training costs.

While clearly identifiable introductory costs are being deferred, and amortized over a five year period as is consistent with industry practice, many associated but non-recurring costs were charged to expense for the year.

Mainline revenues, representing 62% of the total, increased by 6% to $10,900,000, while international charter revenues increased from $1,548,000 in 1967 to $3,747,000 as a result of a full year's operation of our Boeing 707. These increases more than offset the reduction in domestic charter revenues of $528,000 largely resulting from the sale in June 1968, of Pacific Western's only remaining small aircraft operation, in the Prince Rupert area, which was acquired by Trans-Provincial Air Carriers.

Long-term debt was reduced during the year by $1,889,000, and equipment valued at $1,701,000 was acquired.

During 1968 holders of $336,000 par value of the Series A convertible debentures exchanged their bonds for 58,230 common shares of the Company reducing this issue from $504,000, outstanding at December 31, 1967, to $168,000 as at December 31, 1968.

Since the prime function of your Company is to provide a service, the acquisition of equipment has been arranged on the basis of outright purchase, or by lease, as dictated at the time of acquisition by our cash position — or cash available to us, and taking into account tax considerations.

OPERATIONS

The year 1968 saw a full year's operation of the six turbine powered aircraft introduced during 1967: 4 Convair 640 and the Lockheed L382B Hercules jet-props, and the Boeing 707 fan-jet aircraft. Finally, introduction of the first Boeing 737 twin-jet into regular service coincided with inaugural of the 'Stampeder Service' between Vancouver, Kamloops and Calgary on December 17, 1968. Our second Boeing 737 was delivered on March 12, 1969.

The training of air crew, maintenance and passenger and customer service personnel, while maintaining day-to-day operations, imposed a tremendous burden on the Company in 1968. The fact that our people are flying, maintaining

and selling all our new equipment and services, with no disruptions or delay, is a tribute to management and supervisory personnel.

The extra section at the front of this report sets out with words and pictures the current operations of your Company in some further detail.

MARKETING

The new challenges facing Pacific Western have brought about a re-organization of the passenger Sales and Traffic department designed to integrate and co-ordinate all the functions of direct selling, advertising, passenger handling and reservations, ramp services, passenger and in-flight services and operational planning of equipment deployment and utilization.

Additionally, with increased capability and rapidly increasing demand, the functions of selling and handling air cargo now form a separate department, although close liaison is maintained with the Sales and Traffic department.

PERSONNEL

Our personnel have again demonstrated their resourcefulness and diligence in successfully carrying on the equipment transition begun in 1967, as well as undertaking new operations during the year under review.

Personnel relations are generally excellent, partly because of a continuing two-way communication. Of the three agreements due to expire in 1968, two were renewed before the expiration date, while the third was still under discussion at year end.

We would like to record here our appreciation for the co-operation and support of all our personnel throughout the year.

1969 AND BEYOND

Following licensing of a new route from Vancouver to Kamloops and Calgary in November last, authority was received in January 1969 to provide Class I scheduled service linking Vancouver, Kelowna, Penticton, Cranbrook and Calgary. This route is presently operated by CP Air who will withdraw therefrom when this transfer of services takes place on April 27, 1969. Pacific Western was also authorized to extend its coastal services beyond Port Hardy to Sandspit (which point CP Air will vacate) and Prince Rupert. Authorized as well was a new service between Prince Rupert and Prince George which will connect with existing services to Dawson Creek and Edmonton.

The second Boeing 737 will go into service on the southern B.C. routes, on the Chieftain AirBus, and from Vancouver to Port Hardy, Sandspit and Prince Rupert. A DC-6A/B aircraft was leased in February 1969, to meet the increased charter and freight requirement in the north, and a second Hercules is to be delivered in late March or early April under the terms of a one-year lease which may be extended at the option of the Company.

On February 7, 1969 your Company announced that agreement had been reached for the purchase by Pacific Western of Edmonton-based Byers Transport Ltd., and Truckers Terminal Distributing Co. Ltd. subject to approval by the several regulatory authorities involved. The two firms own and operate, primarily in northern Alberta and the Northwest Territories, some 200 units (trucks, tractors and trailers) as well as leasing additional driver-owned units for long distance highway hauls. Pacific Western and Byers have worked together for several years on the combined truck/air concept that has resulted in the annual spring airlift from the end of road at Yellowknife to far north points. This new association will ensure your Company's continued leadership in the truck/air method of providing shippers with 'one contract' minimal cost freight transportation.

The 'jet-factor' of traffic generation directly related to the appeal of modern jet aircraft is no myth. All other factors being equal — **except** for replacing two round trips a day with Boeing 737 service — the Chieftain AirBus set an all-time monthly record in January 1969, of 17,688 passengers; — and PWA alone is carrying more Vancouver-Kamloops air traffic than ever before (according to available statistics), while CP Air is presumably continuing to carry

its share of this traffic until they vacate the Kamloops' service in favour of your Company on April 27.

The Regional Air Policy which your Company has propounded for so long, and which was officially announced in late 1966, has finally come to its initial fruition with the re-organization of British Columbia air services presently underway. Not all the points and services your Company applied for were granted (some points were licensed to a small tertiary carrier under Class 2 authority — which will provide community services to intermediate points with connections to our mainline services at several points), and certain restrictions were placed on other services which limit competitive possibilities.

On balance, the additional 3,931 scheduled service route miles, which will increase total licensed route miles on Pacific Western's domestic services to almost 11,000, will prove beneficial and will produce substantially increased revenues.

An extremely important feature of these new routes is that now our two main operational bases of Vancouver and Edmonton are joined together with on-line services which will result in economies of operation in several areas, allow consolidation of some departmental staffs presently duplicated, and will help to improve overall efficiency.

It must be noted, however, that the two-stop restrictions placed on Pacific Western by the Air Transport Committee decisions, which preclude effective competition on the coast with CP Air's remaining non-stop services to Prince Rupert, and the unlimited competition authorized to B.C. Air Lines on the Okanagan route — where no competition existed before, will provide some dilution of revenues that might not otherwise have been anticipated. Nevertheless, your Company is confident that, with concerted efforts in marketing and in improving service, the new routes will contribute to future profits.

Mr. T. P. Fox, who joined the Board of Directors of your Company in 1961, retired from the Board in July of 1968. Mr. Fox was a pioneer in commercial aviation in the north, and his knowledge of this important area of operation was of great service.

We wish to record here our appreciation for his contribution and his many years of interest in the growth of Pacific Western.

The year 1969 will produce continued expansion and growth and will be attended with increased costs, some of which will be non-recurring. As a result, while we can confidently anticipate a profitable year for 1969, the real return will be in establishment of a greatly expanded capability, staffed with experience, for future greater profitability.

Respectfully submitted,

B. C. Samis, Chairman of the Board

R. H. Laidman

R. H. Laidman, President

April 3, 1969

PACIFIC WESTERN AIRLINES LTD. and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1968 (with comparative figures for 1967 — Note 7)

	1968	1967
Operating revenues:		
Passenger	$ 8,780,926	8,420,289
Cargo	1,603,280	1,570,501
Mail	697,744	653,390
Charter	6,536,053	4,289,442
Other revenue, net	27,146	40,259
	17,645,149	14,973,881
Operating expenses:		
Flying operations	5,533,493	4,321,195
Maintenance	3,140,891	2,937,806
Aircraft and traffic servicing	2,857,568	2,724,411
Passenger service	1,059,315	777,654
Selling and advertising	1,138,272	650,744
General and administrative	1,382,836	1,103,819
	15,112,375	12,515,629
Operating income before depreciation and amortization	2,532,774	2,458,252
Depreciation (Note 2)	1,183,888	1,167,645
Amortization of introductory costs (Note 3)	204,693	130,206
	1,388,581	1,297,851
Operating income	1,144,193	1,160,401
Other charges (income) net:		
Interest on long-term debt	945,663	770,219
Other interest	33,221	7,497
Amortization of financing expenses	50,899	37,964
Interest income	(150,264)	(118,626)
Interest capitalized	(123,972)	—
	755,547	697,054
Earnings before income taxes	388,646	463,347
Deferred income taxes (Note 7)	214,200	237,000
Earnings before gain on sale of equipment	174,446	226,347
Gain on sale of equipment, net of income taxes thereon (Note 7)	110,258	91,061
Net earnings for the year	$ 284,704	317,408

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1968 (with comparative figures for 1967 — Note 7)

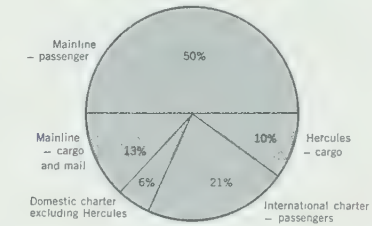
	1968	1967
Balance at beginning of year	$ 3,272,734	2,696,853
Net earnings for the year	284,704	317,408
Adjustment for deferred income taxes:		
Prior years	(13,000)	—
Not recorded in the accounts (Note 7)	—	325,000
	3,544,438	3,339,261
Deduct dividends paid:		
First preferred shares	55,500	57,740
Second preferred shares	8,037	8,787
	63,537	66,527
Balance at end of year	$ 3,480,901	3,272,734

See accompanying notes to consolidated financial statements.

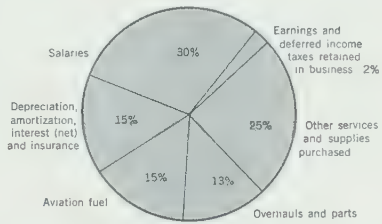
Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated March 1, 1969.

1968

WHERE REVENUE DOLLAR CAME FROM:



AND WENT TO:



PACIFIC WESTERN *AIRLINES LTD. and Subsidiary Companies*

CONSOLIDATED BALANCE SHEET

December 31, 1968 (with comparative figures for 1967)

ASSETS	1968	1967
Current assets:		
Cash and bank deposit receipts	$ 1,256,376	1,048,591
Accounts receivable	1,332,856	1,368,275
Refundable deposits on new equipment	1,425,738	—
Current portion of Northward Aviation Ltd. debentures	130,000	95,000
Inventory of parts, materials and supplies, at the lower of cost or net realizable value	738,053	661,779
Prepaid insurance and other expenses	368,200	305,611
Total current assets	5,251,223	3,479,256
Other assets:		
Investment in Northward Aviation Ltd.:		
Shares, at cost	100,000	100,000
7% debentures, less amount due within one year	51,000	165,000
	151,000	265,000
Rental deposits on leased flight equipment and accrued interest	1,285,492	980,635
Sundry, at cost	5,000	38,370
	1,441,492	1,284,005
Property and equipment, at cost, less depreciation (Note 2):		
Flight equipment	15,572,170	15,801,666
Buildings on leased land and ground facilities	2,094,710	1,678,102
	17,666,880	17,479,768
Less accumulated depreciation and provision for overhauls	5,263,777	4,726,855
	12,403,103	12,752,913
Deposits on purchase of flight equipment	394,350	665,597
	12,797,453	13,418,510
Deferred charges, less amortization:		
Introductory costs of new aircraft and services (Note 3)	1,524,816	802,854
Debt financing expenses	217,991	268,890
	1,742,807	1,071,744
Excess of cost of investments in subsidiary companies over their net book value at time of acquisition and goodwill	1,107,707	1,173,807
	$22,340,682	20,427,322

See accompanying notes to consolidated financial statements.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated March 1, 1969.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1968	1967
Current liabilities:		
Bank indebtedness, including demand loan $50,000, secured by a general assignment of accounts receivable	$ 478,180	—
Accounts payable and accrued expenses	3,325,609	2,280,396
Payments on long-term debt due within one year (Note 4)	1,353,945	1,154,633
Total current liabilities	5,157,734	3,435,029
Overhaul provision on aircraft under long-term lease	187,576	46,287
Long-term debt, less amount included in current liabilities (Note 4)	10,756,528	11,511,829
Deferred income taxes (Note 7)	260,500	—
Shareholders' equity (Notes 4, 5 and 6):		
Share capital	2,497,443	2,161,443
Retained earnings, per accompanying statement	3,480,901	3,272,734
Total shareholders' equity	5,978,344	5,434,177
Commitments (Note 9).		
	$22,340,682	20,427,322

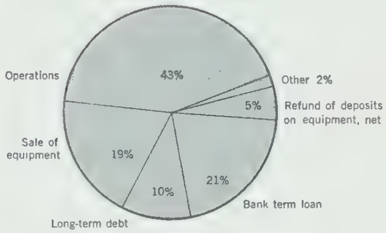
Approved on behalf of the Board:

B. C. SAMIS, Director

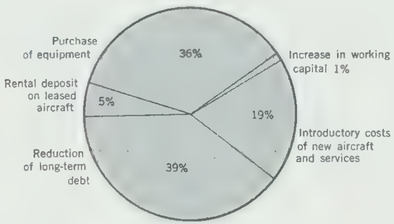
R. H. LAIDMAN, Director

1968

WHERE FUNDS CAME FROM:



AND WENT TO:



PACIFIC WESTERN *AIRLINES LTD. and Subsidiary Companies*

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

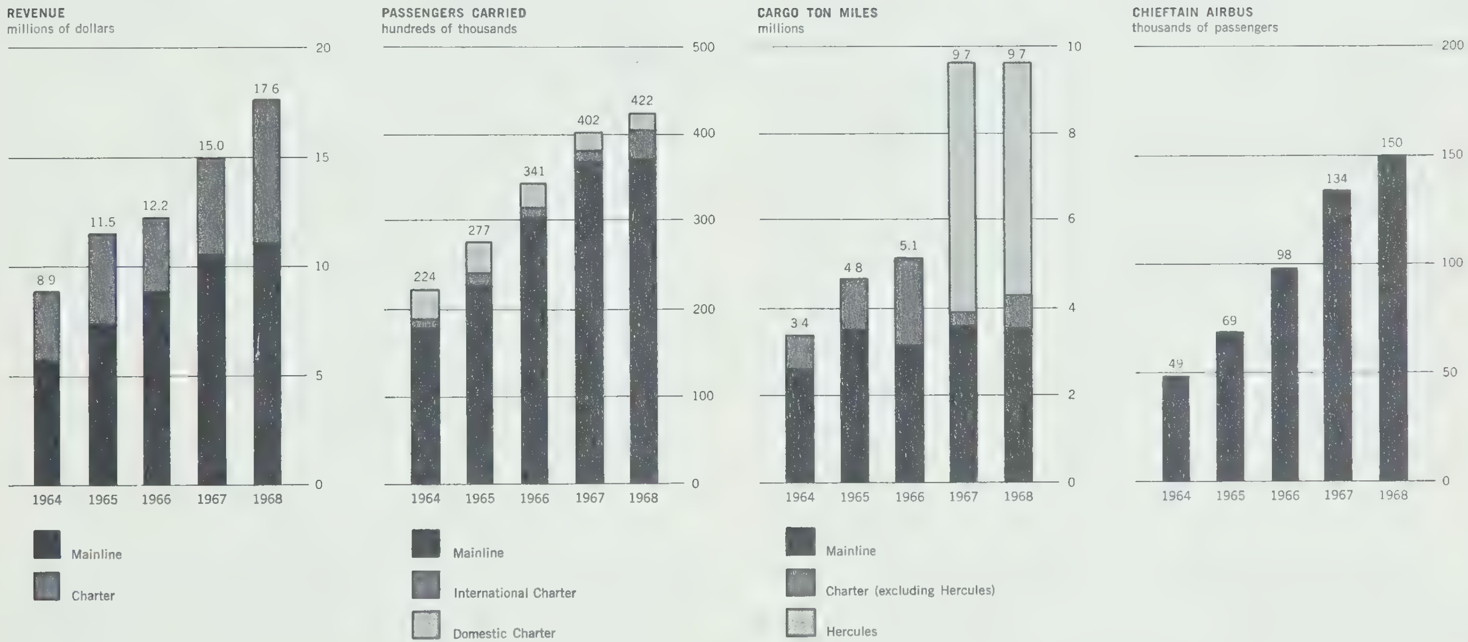
Year ended December 31, 1968 (with comparative figures for 1967 — Note 7)

	1968	1967
Funds provided by:		
Operations:		
Net earnings for the year	$ 284,704	317,408
Add charges (net) not requiring cash expenditure:		
Depreciation and amortization	1,439,480	1,335,815
Increase in provision for overhauls	316,367	398,218
Gain on sale of equipment, net of income taxes	(110,258)	(91,061)
Deferred income taxes	214,200	237,000
Other	(90,812)	(13,698)
Funds provided by operations	2,053,681	2,183,682
Bank term loan	1,000,000	—
Sale of equipment	909,305	466,461
Refund of deposits on equipment, net	271,247	—
Issue of Sinking Fund Debentures less costs of issue	—	3,307,854
Other	147,370	23,630
Total funds provided	4,381,603	5,981,627
Funds applied to:		
Purchase of equipment	1,701,344	6,949,229
Less amount financed through long-term debt	470,000	4,552,700
	1,231,344	2,396,529
Reduction of long-term debt (not including reduction of $336,000; $706,000 in 1967 on conversion of debentures into common shares)	1,889,300	2,641,488
Introductory costs of new aircraft and services	926,655	844,237
Rental deposit on leased aircraft	221,505	966,937
Dividends on preferred shares	63,537	66,527
Total funds applied	4,332,341	6,915,718
Increase (decrease) in working capital	49,262	(934,091)
Working capital at beginning of year	44,227	978,318
Working capital at end of year	$ 93,489	44,227

See accompanying notes to consolidated financial statements.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated March 1, 1969.

PROGRESS 1964/1968 (Yearly totals as at December 31)



PACIFIC WESTERN *AIRLINES LTD. and Subsidiary Companies*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1968

1. Conversion of foreign currencies:
   Current assets and current liabilities in U.S. funds have been converted into Canadian dollars at the rate of exchange in effect at December 31, 1968. Long-term debt payable in U.S. funds, other than the amount due within one year, has been converted at rates prevailing at the time the debt was incurred.

2. Property and equipment:
   Flight equipment, with the exception of the renewable portion of aircraft engines, is depreciated on a straight-line basis at varying rates dependent upon its estimated useful life, with appropriate provision for residual values. As a result of a review during the year of the estimated life of Convair 640 and Lockheed Hercules aircraft, depreciation charged against earnings was approximately $200,000 less than it would have been if 1967 depreciation rates had been employed. The provision for the renewable portion of aircraft engines is made through an overhaul charge based on the number of hours operated multiplied by an hourly overhaul cost. Ground property and equipment is depreciated on a straight-line basis at varying rates dependent upon the estimated useful life of the assets included therein.

3. Introductory costs of new aircraft and services:
   In addition to the costs which were deferred at December 31, 1967, the initial training costs of Boeing 707 and Boeing 737 flight crews, pre-operating costs of the Boeing 737 and pre-operating costs of the Stampeder Service have been deferred. During the year the company re-examined its policy of amortizing introductory costs of new aircraft and services, as a result of which the period over which these costs are to be written off was extended from three years to five years from the commencement of the new service or from the date the aircraft were considered operational. Because of this change in policy, amortization charges were reduced by $225,000, of which $51,000 is applicable to 1967.

4. Long-term debt:
   Particulars of long-term debt at December 31, 1968:

	Total	Due within one year	Non-current
7% Convertible Subordinated Sinking Fund Debentures Series A due April 1, 1976. The sinking fund requirements for 1969 through 1974 and part of 1975 have been met by the conversion of debentures into common shares. The balance of the sinking fund requirements are $43,000 in 1975 and $125,000 in 1976	$ 168,000	—	168,000
7% Convertible Sinking Fund Debentures Series AA due June 1, 1982; with an annual sinking fund requirement of $140,000 in 1969 through 1971, $280,000 from 1972 through 1981 and the balance in 1982	3,500,000	140,000	3,360,000
Agreements payable for Convair 640 aircraft and spare parts of $3,733,115 U.S. and $790,074 U.S., secured by 8% debentures. Payable in quarterly instalments to March 31, 1972 on which date a final payment of $2,263,038 U.S. will be due	4,907,660	781,493	4,126,167
Agreements payable for Lockheed Hercules aircraft and spare parts of $1,619,580 U.S. and $262,920 U.S., secured by 10% and 6% debentures respectively. Payable in monthly instalments to May 1974	2,042,512	303,296	1,739,216
Bank loan, due February 1, 1970, secured by a general assignment of accounts receivable	1,000,000	—	1,000,000
Lease purchase obligations for Boeing 737 spare parts. Payable in monthly instalments to October 1973	434,645	71,500	363,145
Other agreements payable in instalments from January to November 1969, secured by charges on certain specific assets	57,656	57,656	—
	$12,110,473	1,353,945	10,756,528

Among other provisions, the trust indentures of the Series A and Series AA debentures and the debentures securing the agreements payable for Convair 640 and Lockheed Hercules aircraft contain restrictions on the payment of dividends on the common shares of the company. Under these restrictions retained earnings of approximately $325,000 are available for cash dividends on common shares, but, no such dividends can be paid unless the working capital after the payment of such dividends is at least $750,000.

5. Share capital:
   Particulars of the authorized and issued share capital as of December 31, 1968 are:

6% cumulative redeemable sinking fund first preferred shares of $10 par value per share. Authorized 100,000 shares; issued 92,500 shares	$ 925,000
6% cumulative redeemable sinking fund second preferred shares	

of $10 par value per share. Authorized 15,895 shares; issued 13,395 shares	133,950
	1,058,950
Common shares of no par value. Authorized 1,500,000 shares; issued 877,782, including 58,230 shares issued during the year on conversion of $336,000 Series A debentures	1,438,493
	$2,497,443

The preferred shares, first and second issues, are redeemable at $10.50 per share and $10 per share respectively. The terms of issue, as amended, provide for an annual sinking fund provision of 30% of the annual consolidated net earnings (maximum $100,000 save as the directors may determine) so long as the consolidated net current assets would not be reduced to less than $150,000.

The terms of issue of the first preferred shares restrict the payment of dividends on the second preferred shares or common shares when the consolidated working capital is less than $150,000. There is a similar restriction under the terms of issue of the second preferred shares relating to the payment of dividends on the common shares.

Dividends on the first and second preferred shares have been paid to December 1, 1968. If the company failed to pay in the aggregate four quarterly dividends on the first preferred shares, then so long as any dividends remain in arrear, the holders of the first and second preferred shares would be exclusively entitled to vote at all general meetings of the company.

The holders of the 7% Convertible Subordinated Sinking Fund Debentures Series A are entitled to convert each $1,000 debenture into 160 common shares if converted on or before April 1, 1971 when the conversion privilege expires. The holders of the 7% Convertible Sinking Fund Debenture Series AA are entitled to convert each $1,000 debenture into 70 common shares if converted on or before June 1, 1972 and into 50 common shares if converted after June 1, 1972 and on or before June 1, 1977 when the conversion privilege expires. At December 31, 1968, the number of common shares reserved for the conversion of the Series A and Series AA debentures was 271,880 shares which was the maximum number required for such conversion.

6. Stock options:
On January 28, 1969 options were granted to company officers to purchase, at $14.85 per share, a total of 30,000 common shares of the capital stock of the company. These options may be exercised to a maximum of 7,500 shares in each of the years ending February 1, 1970 to 1973 on a non-cumulative basis.

7. Income taxes:
Income taxes of $7,532 are payable for the year. However, in accordance with a recommendation of the Canadian Institute of Chartered Accountants the Company has decided to charge to earnings the deferred taxes which arise from claiming capital cost allowance for tax purposes in excess of depreciation recorded in the accounts and from certain deferred charges which may be claimed for tax purposes. Such deferred taxes amount to $214,200 on operating earnings and $46,300 on gain on disposal of equipment. Accumulated deferred taxes to December 31, 1967 of approximately $1,947,000 have not been recorded in the accounts. In order to present a proper comparison of 1967 and 1968 earnings, the 1967 figures previously reported have been restated to reflect the applicable deferred taxes for that year of $325,000. As these taxes are not recorded in the accounts, a corresponding adjustment has been made to retained earnings.

8. General and administrative expense:
Remuneration of directors, senior officers of the company and certain technical personnel, as defined by the B.C. Securities Act, amounted to $236,648 for the year 1968.

9. Commitments:
At December 31, 1968 commitments for the purchase of two Boeing 737 aircraft for delivery March 1969 and January 1970, and spare parts and other fixed assets amounted to approximately $8,500,000, after deducting deposits made on this equipment.

The company is leasing under long-term agreements a Boeing 707, a Boeing 737 and a DC6B aircraft under which annual rentals payable are approximately $1,425,000 in 1969 through 1971; $1,355,000 in 1972 through 1976; $1,225,000 in 1977; $625,000 in 1978 through 1979 and $520,000 in 1980. The company has options to purchase these aircraft when the leases expire. Lease of a DC-6A/B aircraft was entered into February 1969 at $10,000 per month for a period of 25 months, with option to purchase when the lease expires.

The company has entered into other leases expiring after December 31, 1971 with total annual rentals of approximately $75,000.
The company has guaranteed the bank loan of Northward Aviation Limited up to a maximum amount of $17,000.

Subject to approval of certain debenture holders and regulatory agencies, the company has entered into an agreement to purchase all the issued and outstanding shares of Byers Transport Limited and Truckers Terminal Distributing Co. Ltd. for a total consideration of $1,045,000 payable as follows: $295,000 cash, $450,000 7% notes payable in five equal annual instalments of $90,000 in each of the years 1970 to 1974 and 20,000 common shares of the company.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Pacific Western Airlines Ltd. and its subsidiary companies as of December 31, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the changes, with which we concur, in accounting policy referred to in Notes 2, 3 and 7 of the notes to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
March 1, 1969

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

PACIFIC WESTERN AIRLINES LTD. and Subsidiary Companies

10 YEAR SUMMARY

FINANCIAL STATISTICS	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Mainline revenue	$10,922,851	$10,307,771	$8,583,104	$7,133,137	$5,562,596	$4,284,926	$3,977,175	$3,985,243	$4,270,145	$2,825,103
Contract and charter revenue										
Multi-engine aircraft (excluding International and Hercules)	918,686	1,097,110	1,020,886	826,561	662,202	663,444	417,984	371,685	281,672	327,741
International—passenger	3,747,024	1,547,514	1,813,366	1,869,369	1,338,484	—	—	—	—	—
Hercules—cargo	1,823,163	1,425,276	—	—	—	—	—	—	—	—
Single engine aircraft	206,279	555,951	782,086	1,675,289	1,278,671	1,283,665	1,200,999	1,396,858	1,267,814	1,396,504
Other revenue	27,146	40,259	80,745	32,221	28,260	58,473	17,647	91,863	49,436	89,844
	17,645,149	14,973,881	12,280,187	11,536,577	8,870,213	6,290,508	5,613,805	5,845,649	5,869,067	4,639,192
DEW line revenue	—	—	—	—	—	—	—	666,923	2,717,817	3,224,699
Government subsidy	—	—	—	—	—	—	284,251	283,573	50,000	—
Total revenue	$17,645,149	$14,973,881	$12,280,187	$11,536,577	$8,870,213	$6,290,508	$5,898,056	$6,796,145	$8,636,884	$7,863,891
Funds provided by operations	2,053,681	2,183,682	1,606,309	1,040,760	691,207	456,868	218,368	747,026	662,312	1,049,123
Depreciation and amortization	1,439,480	1,335,815	480,267	395,208	367,174	372,533	586,862	561,642	770,998	655,015
Income taxes	—	—	(57,000)	310,000	7,600	—	(63,450)	57,000	45,000	5,000
Deferred income taxes (1968 actual—1967 shown for comparison only)	214,200	237,000	—	—	—	—	—	—	—	—
Gain (loss) on sale of equipment	110,258	91,061	483,652	45,085	86,773	9,935	(44,636)	9,700	(72,457)	324,019
Net earnings (loss)	284,704	317,408	1,424,773	601,202	331,324	114,534	(317,480)	10,393	(412,013)	415,425
Purchase of equipment	1,701,344	6,949,229	6,015,777	1,453,522	703,073	449,797	836,373	573,618	413,201	1,306,318
Reduction of long term debt	1,889,300	2,641,488	1,295,415	344,032	375,238	347,085	333,804	690,220	185,075	1,068,514
Dividends on preferred shares	63,537	66,527	69,537	69,537	124,074	15,000	69,537	69,537	69,537	69,537
OPERATING STATISTICS										
Mainline										
Passengers carried	370,577	364,089	301,834	230,396	180,444	126,506	121,335	114,462	117,401	96,002
Cargo carried (lbs.)	11,408,210	12,157,911	10,581,891	12,429,400	9,787,255	8,355,206	7,309,954	6,212,768	7,154,835	4,766,902
Passenger miles flown	95,425,649	92,909,407	77,877,340	56,813,151	43,347,230	34,073,147	33,828,118	31,984,300	32,476,800	23,002,000
Ton miles flown	13,097,094	12,938,749	11,035,356	9,201,929	6,960,506	5,409,221	5,194,132	5,092,119	5,406,035	3,403,988
Aircraft miles flown	3,190,941	3,731,926	3,216,699	2,844,336	2,425,967	1,991,819	1,993,023	2,172,521	2,445,029	1,449,925
Contract and charter										
Hercules aircraft miles flown	577,859	563,115	—	—	—	—	—	—	—	—
Other multi-engine aircraft miles flown	483,653	543,970	656,517	466,431	398,762	384,107	217,644	207,252	153,130	137,914
Single-engine aircraft miles flown	228,250	650,333	1,077,787	2,338,167	1,849,709	1,743,608	1,678,858	1,966,688	1,695,392	1,342,561
International passenger service										
Aircraft miles flown	1,117,204	669,764	744,177	841,997	726,086	—	—	—	—	—
DEW line operations										
Aircraft miles flown	—	—	—	—	—	—	—	304,010	1,431,553	1,796,725

HEAD OFFICE

Vancouver Airport, B.C.

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company,
Vancouver, B.C.
Victoria, B.C.
Edmonton, Alta.
Regina, Sask.
Winnipeg, Man.
Toronto, Ont.
Montreal, Que.

BANKERS

Canadian Imperial Bank of Commerce,
Vancouver, B.C.

SHAREHOLDERS' AUDITORS

Peat, Marwick, Mitchell & Co.,
Vancouver, B.C.

SHARES LISTED

Vancouver Stock Exchange

SUBSIDIARY COMPANIES
(Wholly Owned)

Pacific Western Airlines (Alberta) Ltd.
Aero Engineering Limited
Queen Charlotte Airlines Ltd.
Silver Wings Aviation Ltd.

FINANCIAL REPORT 1968